Pekat Group (PEKAT MK)

Bright Prospects Driven By Favourable Policy

	BUY (Maintained)
Share Price	RM1.70
Target Price	RM2.00
Upside	18.3%

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Highlights

- A recent meeting reinforced our conviction that BESS adoption is expected to see robust growth, driven by regulatory mandates and solutions on maximum demand reduction.
- Payback period for solar-plus-BESS installations remains healthy, with a payback period of under five years for C&I consumers.
- BUY on share price weakness with a target price of RM2.00, based on a mean PE of 25x and 2026 EPS of 8.0 sen/share.

Analysis

- **Mandatory BESS to stable grid, a catalyst for the stock.** Under the current self-consumption (SELCO) scheme, commercial and industrial (C&I) consumers installing solar PV systems exceeding 72kWp are required to install battery energy storage systems (BESS) of equal or greater capacity alongside its solar system (effective 1 Jan 26). Rapidly falling BESS costs and the availability of the Green Investment Tax Allowance (GITA) are expected to make BESS a viable option. In addition, future large-scale solar projects (ie, LSS6) would likely mandate the integration of BESS to ensure grid stability. All of these points towards favourable engineering, procurement, construction and commissioning (EPCC) contracts for the likes of Pekat. With BESS here to stay, we believe Pekat may also venture into the assembly/ manufacturing of battery systems in Malaysia in the near future.
- **Solar-plus-BESS: A healthy payback period for C&I consumers.** The changes in electricity tariff effective 1 Jul 25 led to maximum demand (MD) charges escalating by 3x (from RM30/kw to RM97/kw). As such, C&I consumers are looking at ways to lower their MD-related costs. This will eventually help to make a solar-plus-BESS system more palatable compared to a standalone rooftop solar PV project. We estimate that medium-voltage C&I consumers can achieve a payback period between 3-5 years for a solar-plus-BESS system, depending on their MD usage pattern.
- **Solar ATAP expected to be a boon to Pekat's earnings.** We expect to see a slowdown in the 3Q25 earnings base in the absence of the residential rooftop programme. By 1 Jan 2026, we expect a resumption of residential rooftop revenue with the introduction of Solar Accelerated Transition Action Programme (or better known as Solar ATAP). The industry continues to lobby for limitless (no quota) installation capacity to support future solar adoption.

Key Financials

Year to 31 Dec (RMm)	2023	2024	2025F	2026F	2027F
Net turnover	227.5	291.1	592.5	690.9	810.1
EBITDA	21.0	38.3	84.7	105.4	119.4
Operating profit	19.2	36.0	79.1	94.9	108.2
Net profit (rep./act.)	13.7	22.0	46.0	56.8	66.0
Net profit (adj.)	13.9	22.0	46.0	56.8	66.0
EPS	2.2	3.4	6.5	8.0	9.3
PE	78.8	49.8	26.1	21.1	18.2
P/B	8.0	5.6	3.7	2.5	1.9
EV/EBITDA	27.7	17.8	8.6	5.8	4.0
Dividend yield	0.6	0.0	1.2	1.2	1.2
Net margin	6.1	7.6	7.8	8.2	8.2
Net debt/(cash) to equity	(18.6)	18.7	22.9	(11.6)	(29.8)
Interest cover	12.1	44.3	11.1	16.9	26.3
ROE	10.2	11.3	14.2	11.9	10.3
Consensus net profit	-	-	50.1	56.1	61.0
UOBKH/Consensus (x)	-	-	0.9	1.0	1.1

Source: Pekat, Bloomberg, UOB Kay Hian

Stock Data

GICS Sector	Renewable Energy
Bloomberg ticker	PEKAT MK
Shares issued (m)	706.2
Market cap (RMm)	1,243.0
Market cap (US$m)	296.2
3-mth avg daily t'over (US$m)	0.6

Price Performance (%)

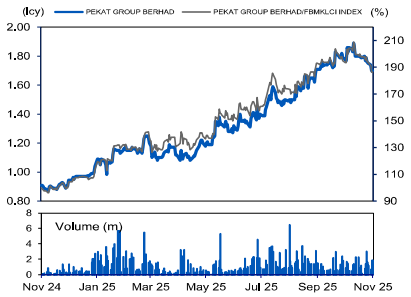
52-week high/low				RM1.90/RM0.82
1mth	3mth	6mth	1yr	YTD
(2.2)	19.7	46.7	96.6	77.8

Major Shareholders

	%
Chin Soo Mau	34.9
Tai Yee Chee	8.8
Wee Chek Aik	6.8

FY25F NAV/Share (RM)	0.34
FY25F Net Debt/Share (RM	0.24

Price Chart



Source: Bloomberg

Company Description

An established solar PV and earthing & lightning protection solutions provider based in Malaysia.

- **RM100.8m raised via private placement, strengthening its balance sheet.** Pekat has completed a private placement exercise, raising RM100.8m through the issuance of 60m shares at RM1.68/ share. Following the private placement, the group's issued share capital stands at 706.2m (9.5% enlargement), representing a total paid-up capital of RM195.8m. Proforma gross gearing will ease from 0.78x (2Q25) to 0.50x (after the placement), while partial debt repayment from the proceeds is projected to generate about RM1m in annual interest savings.
- **EPS dilution, likely to be offset by new contract in the future.** 2026 EPS dilution is estimated at 7.0% to 8.1 sen. While dilutive in nature, we note that this private placement is intended to build up a warchest to participate in future renewable energy contracts. The outlook for EPCC contractors remains bright into 2030 as Malaysia continue to drive its decarbonisation targets (35% RE generation mix by 2030).

Utilisation Of Proceeds from Private Placement

Proceeds Utilisation	Amount (RM)	% Utilised	Estimated Timeframe
Capex for C&I solar photovoltaic PV projects	44.5m	44.1%	Within 12 months
Capex for development of future solar PV projects	46.1m	45.7%	Within 24 months
Capex for CGPP project	10.0m	9.9%	Within 6 months
Estimated expenses for the proposed private placement	0.2m	0.2%	Within 1 month
Total	**100.8m**	**100%**	

Source: Pekat, UOB Kay Hian

Valuation/Recommendation

- **Maintain BUY with a target price of RM2.00, after the private placement.** We peg our fair value at 25x (10% discount on sector average) and 2026 EPS of 8.0 sen/share (post-private placement), considering bright prospects for Pekat with a commendable three-year (2024-27) earnings CAGR of 44%. Previously, our target price was based on a mean PE of 23x and 2026 EPS of 8.7 sen/share (pre-private placement).
- Pekat remains our top RE pick for its robust orderbook of RM751m and full-year consolidation of 60%-owned EPE Switchgear. Importantly, we expect Pekat to demonstrate the capability to pull away from competition with its strong execution track record and stellar cost management.

Earnings Revision/Risk

- We trim our 2025 net profit forecasts from RM50m to RM46m but maintain 2026 net profit as we pencil in expenses relating to Pekat's main board listing (slated for 2Q26).
- We expect Pekat to benefit from Budget 2026, driven by elevated EPCC jobs from LSS6, Solar ATAP and off-grid projects in Sabah and Sarawak.

Environmental, Social, Governance (ESG)

Environmental

- Pekat installed solar PV systems with a cumulative capacity of 203.2MWp for its customers in 2024, resulting in an impressive estimated reduction of 199,319 tonnes of carbon dioxide emissions.

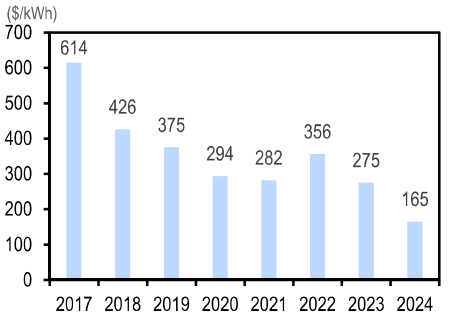
Social

- Pekat is dedicated to advancing workforce diversity and equity. As at end-FY24, Pekat employed 309 individuals from various backgrounds, with male staff making up 69% of the company's total workforce and female staff making up the remaining 31%.
- Pekat provided a total contribution of RM30,000 in financial aid and non-financial resources to NGOs, educational institutions, and children's welfare homes in FY24.

Governance

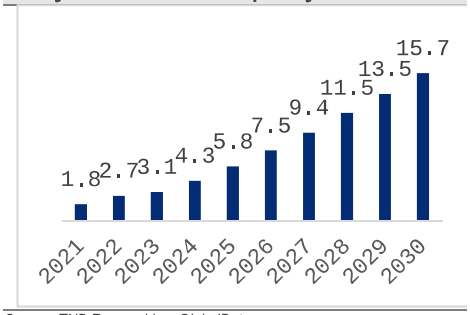
- The board comprises six members consisting of four Independent Directors and two Non-independent Directors including GCEO. Meanwhile, women comprise 33% (two directors) of the board.

Turnkey BESS Historical Price



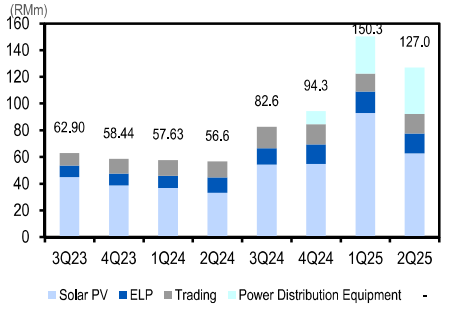
Source: Solarvest

Malaysia's Solar PV Capacity Outlook



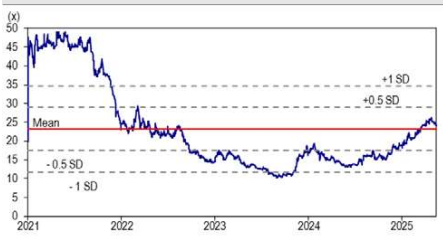
Source: TNB Renewables, GlobalData

Quarterly Revenue Breakdown



Source: Pekat, UOB Kay Hian

PE Band



Source: Pekat, UOB Kay Hian

Profit & Loss

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Net turnover	**291.1**	**592.5**	**690.9**	**810.1**
EBITDA	38.3	84.7	105.4	119.4
Deprec. & amort.	(2.3)	(5.6)	(10.6)	(11.1)
EBIT	36.0	79.1	94.9	108.2
Associate contributions	(0.6)	(0.8)	(1.1)	(1.5)
Net interest income/(expense)	(0.8)	(7.1)	(5.6)	(4.1)
Pre-tax profit	**34.6**	**71.1**	**88.1**	**102.6**
Tax	(11.8)	(17.1)	(21.1)	(24.6)
Minorities	(0.7)	(8.1)	(10.1)	(11.9)
Net profit	**22.0**	**46.0**	**56.8**	**66.0**
Net profit (adj.)	22.0	46.0	56.8	66.0

Balance Sheet

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Fixed assets	67.5	120.5	117.8	115.8
Other LT assets	61.4	59.6	58.9	58.1
Cash/ST investment	38.2	28.2	130.1	249.6
Other current assets	251.5	489.6	558.3	644.6
Total assets	**418.7**	**697.9**	**865.0**	**1,068.1**
ST debt	**38.1**	**39.6**	**29.0**	**22.5**
Other current liabilities	126.5	250.4	290.7	345.3
LT debt	36.6	62.6	45.9	35.6
Other LT liabilities	22.1	22.1	22.1	22.1
Shareholders' equity	195.4	323.2	477.4	642.6
Minority interest	43.7	55.0	66.9	0.0
Total liabilities & equity	**418.7**	**697.9**	**865.0**	**1,068.1**

Cash Flow

Year to 31 Dec (RMm)	2024	2025F	2026F	2027F
Operating	**15.1**	**(46.6)**	**55.9**	**63.1**
Pre-tax profit	34.6	71.1	88.1	102.6
Tax	(9.6)	(17.1)	(21.1)	(24.6)
Deprec. & amort.	2.3	5.6	10.6	11.1
Associates	0.6	0.8	1.1	1.5
Working capital changes	(12.8)	(114.2)	(28.4)	(31.6)
Non-cash items	0.1	7.1	5.6	4.1
Investing	**(76.9)**	**(69.7)**	**(6.9)**	**(8.6)**
Capex (growth)	(6.9)	(69.7)	(6.9)	(8.6)
Investments	(70.0)	0.0	0.0	0.0
Financing	**72.1**	**106.3**	**52.9**	**65.0**
Dividend payments	0.0	(14.1)	(14.1)	(14.1)
Issue of shares	0.0	0.0	0.0	0.0
Proceeds from borrowings	71.3	127.5	72.7	83.2
Others/interest paid	0.8	(7.1)	(5.6)	(4.1)
Net cash inflow (outflow)	**10.4**	**(10.0)**	**101.9**	**119.6**
Beginning cash & cash equivalent	**23.9**	**34.3**	**24.3**	**126.1**
Changes due to forex impact	0.0	0.0	0.0	0.0
Ending cash & cash equivalent	**34.3**	**24.3**	**126.1**	**245.7**

Key Metrics

Year to 31 Dec (%)	2024	2025F	2026F	2027F
Profitability				
EBITDA margin	13.1	14.3	15.3	14.7
Pre-tax margin	11.9	12.0	12.8	12.7
Net margin	7.6	7.8	8.2	8.2
ROA	11.3	14.2	11.9	10.3
ROE	5.3	6.6	6.6	6.2
Growth				
Turnover	28.0	103.5	16.6	17.3
EBITDA	87.8	119.7	19.9	14.1
Pre-tax profit	90.5	105.8	23.8	16.4
Net profit	60.5	108.7	23.6	16.2
Net profit (adj.)	58.3	108.7	23.6	16.2
EPS	58.3	108.7	23.6	16.2
Leverage				
Debt to total capital	0.3	0.3	0.1	0.1
Debt to equity	38.2	31.6	15.7	9.0
Net debt/(cash) to equity	18.7	22.9	(11.6)	(29.8)
Interest cover (x)	44.3	11.1	16.9	26.3

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